BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2021-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(April 29, 2021)

The United States Postal Service hereby provides its responses to the above

listed questions of Chairman's Information Request No. 2, issued April 22, 2021.   The

questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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April 29, 2021

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

1.   Please refer to Excel file "Proposal Two FCM Letters Cost Model.xlsx" filed with
the Petition. On tabs "CRA – Presort Letters," "CRA – Presort Cards," and "CRA
– Metered Letters," the Postal Service modifies the treatment of cost pools. On
the cost sheets[1] for each presort level, the Postal Service removes the "Incoming
Secondaries" costs for "Box Section Sort, DPS" and "Box Section Sort, Other."

   a.   Please confirm that Proposal Two proposes the following two distinct
changes: (1) modifying the treatment of cost pools for the Cost and
Revenue Analysis (CRA) adjustment factor, and (2) removing the costs
associated with Post Office (P.O.) Boxes.

   b.   If not confirmed, please explain any additional changes to Docket No.
ACR2020, Library Reference USPS-FY20-10, December 29, 2020, Excel
file "USPS-FY20-10 FCM Letters.xlsx"[2] present within Excel file "Proposal
Two FCM Letters Cost Model.xlsx."

RESPONSE:

a.   Confirmed. These two changes described in the Petition represent the totality of

changes proposed by the Postal Service as part of Proposal Two.

b.   Not applicable.

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[1] *See* Excel file "Proposal Two FCM Letters Cost Model.xlsx," tabs, "AUTO MAADC COST,"
"MACH MAADC COST," "BMM COST," "AUTO AADC COST," "AUTO 3-DIGIT COST," "AUTO 5-DIGIT
OTHER COST," "Auto 5-digit Manual Cost," "AUTO 5-DIGIT COST," "MACH INCOMING COST,"
"NMACH MADC COST," "NMACH ADC COST," "NMACH 3-DIGIT COST," "NMACH 5-DIGIT COST," and
"SP NMACH COST."

[2] *See* Docket No. ACR2020, Library Reference USPS-FY20-10 – FY 2020 Special Cost Studies
Workpapers – Letter Cost Models (First-Class and Marketing Mail), December 29, 2020, (LR USPS
FY20-10), Excel file "USPS-FY20-10 FCM Letters.xlsx."

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

2. Please confirm that 33 of the 52 CRA cost pools in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx" have equivalent treatment in Excel file "Proposal Two FCM Letters Cost Model.xlsx." If not confirmed, please explain.

RESPONSE:

Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

3. Please refer to Excel file "Proposal Two FCM Letters Cost Model.xlsx" and LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx."

In Excel file "Proposal Two FCM Letters Cost Model.xlsx," the Postal Service details the proposed treatment for each cost pool. When compared to LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx" some cost pools received equivalent treatment while other cost pools received different treatment. For each cost pool where there Postal Service proposes to change the treatment, supporting justification and quantitative explanation are required.

a. For each of the cost pools below, please explain why the cost pool treatment moved from "Piggybacked" in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx" to "Unrelated" in Excel file, "Proposal Two FCM Letters Cost Model.xlsx."

    i. MODS EXPRESS
    ii. MODS REWRAP
    iii. MODS 1MISC
    iv. NONMODS EXPRESS
    v. NONMODS MISC

b. For the NDCS FSS cost pool, please explain why the cost pool treatment moved from "Piggybacked" in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx" to "Modeled/Proportional" in Excel file "Proposal Two FCM Letters Cost Model.xlsx."

c. For each of the cost pools below, please explain why the cost pool is treated as "Piggybacked" in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx."

    i. MODS 1PLATFRM
    ii. MODS 1SCAN
    iii. NDCS PLA
    iv. NONMODS ALLIED

d. For each of the cost pools below, please explain why the cost pool is treated as "Proportional" in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx."

    i. NONMODS BUSREPLY
    ii. NONMODS D.PO BOX

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

RESPONSE:

a.   The cost pools MODS EXPRESS, MODS REWRAP, MODS 1MISC, NONMODS

EXPRESS, AND NONMODS MISC are reclassified as "Unrelated" because the

activities performed in these pools are incidental to the typical processing flow of

letters. Presorted First-Class Mail letters are typically not processed in Express

Mail operations, and such mail being handled in these operations is likely the

result of an accident not caused by workshare activities. Likewise, mail

processed in the MODS REWRAP pool has been damaged accidently.

Accidental damage is not caused by workshare activities. The activities

performed in MODS 1MISC and NONMODS MISC are, as the title implies,

miscellaneous in nature, including such activities as the destruction of UAA mail.

Processing in these pools is likely due to erroneous addresses and not

workshare activities.

b.   The mail processing models explicitly model the direct piece sorting activities

typically performed on the DBCS and manual operations. However, letter shaped

pieces, often those with larger dimensions, can be processed on flats equipment.

For this reason, flat processing pools, including NDCS FSS, are included as

"Modeled/Proportional". As mentioned in Proposal Two (RM2021-4, Proposal

Two, at 5):

> The reasoning for these assignments is that some letter mail can and
> does flow into the flat-shape mailstream when field operations direct mail

into that mailstream because of the dimensions or other characteristics of
the pieces. These flows are not explicitly modeled. However, the activities
and flow of pieces through these cost pools will be similar to the flow of
letters through letter-shaped mail operations. In particular, the pieces will
avoid comparable sorting operations based on presort levels. For
example, AADC mail will still bypass the Outgoing Primary (OP) scheme,
and 5-Digit mail will bypass the OP and Incoming Primary (IP) schemes.
Thus, the costs incurred in these pools by presort category would be
expected to be proportional to the costs for modeled sorting operations.

The set of cost pools where these direct piece sortation activities are performed

should unequivocally be considered "Modeled/Proportional" for the purpose of

calibrating the models to measured costs with the CRA adjustment factor, as this

is the primary function of this factor. In addition to the obvious letter processing

pools, MODS D/BCS, MODS MANL, and NONMODS MANL, other direct piece

distribution pools, such as MODS AFSM100, MODS FSS, MODS MANF,

NONMODS MANF, and NDCS FSS, should be included as well.

c.   In Docket No. R2006-1 the Commission found the Postal Service's assumption

that non-modeled costs are not related to worksharing activities was insufficiently

supported by the evidence, and instead adopted the methodology currently used

in USPS-FY20-10, which treats MODS 1PLATFRM, MODS 1SCAN, NDCS PLA,

and NONMODS ALLIED as "Piggybacked". See Docket No. R2006-1, Opinion

and Recommended Decision at 147. In Proposal Two, the Postal Service

analyzed IMb scans of IOCS tallies and found evidence that supported the

Commission's treatment of allied pools such MODS 1TRAYSRT, MODS

1OPPREF, MODS 1OPTRANS, but the same was not true of MODS

1PLATFRM, MODS 1SCAN, NDCS PLA and likely NONMODS ALLIED.

The cost pools MODS 1PLATFRM, MODS 1SCAN, NDCS PLA, and NONMODS

ALLIED are associated with transportation activities, and in the case of letters,

transportation activities and costs are not influenced by presort workshare. In the

case of MODS 1PLATRM, pieces in AADC trays and pieces in 5-Digit trays

typically receive identical platform handlings. Both tray levels are handled in

MODS 1PLATFRM operations once as they arrive, are unloaded, and taken to

tray sorting, and then again as they leave the plant in DPS trays. Similarly, the

actions performed on presorted First-Class Mail letters in the NONMODS

ALLIED pool consists of unloading DPS trays and staging them for carriers, or

unloading trays of mail that could not be DPS'd and taking them to manual

Incoming Secondary (IS) operations. In both instances, mailings of all presort

levels—MAADC, AADC and 5-Digit—are all comingled in the trays arriving from

the plant and receive identical allied handlings at the delivery unit.

d.   The NONMODS BUSREPLY cost pool was approved in Docket No. RM2011-12,

Order No. 920 (October 21, 2011) and did not exist as of the Commission's

Docket No. R2006-1 decision classifying cost pools for the First-Class presort

letter models. The Postal Service is not aware of a specific rationale for the

classification, but believes that it was intended to match the accepted

classification as proportional of the non-MODS automated/mechanized and manual letter distribution cost pools, where the costs for the BUSREPLY cost pool likely would have been recorded previously. However, this treatment is inconsistent with the accepted model's treatment of the MODS BUSREPLY cost pool as a non-worksharing fixed cost pool. The proposal would treat both BUSREPLY cost pools consistently. The Postal Service believes treatment as non-worksharing fixed is appropriate insofar as presorted letters would not be expected to flow to Business Reply Mail operations, and Business Reply-related costs should be excluded from the metered single-piece First-Class Mail cost benchmark because single-piece reply mail would not be able to migrate to a presort product.

The NONMODS D.PO BOX cost pool is treated as proportional in USPS-FY20-10 because P.O. Box distribution is a modeled activity in the accepted cost model. As the Postal Service stated in the response to ChIR No. 1, question 4 (April 16, 2021), it does not believe that the model's assumed productivities from Docket No. MC95-1 are reliable, whereas it has made a number of changes to Cost Segment 3.1 to improve the measurement of PO Box distribution costs. As noted in the Petition at pages 6-7, the proposed change in the treatment of NONMODS D.PO BOX mirrors a corresponding change previously accepted by the Commission for presort flats models in Docket No. RM2012-8, Proposal Nine, Modification 6, approved in Order No. 1656 (February 14, 2013). In that

proceeding, while the Commission tentatively agreed that PO Box distribution

costs may be "correlated with preparation characteristics," it ultimately concluded

that "the extent to which a piece is workshared (or not) would not appear to affect

the cost of distributing it to a post office box." Order No. 1656 at 17.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

4. The Postal Service explains that NONMODS BUSREPLY would be treated as "Non-Workshare Fixed." *See* Petition, Proposal Two at 5 n.1. In Excel file, "Proposal Two FCM Letters Cost Model.xlsx," tabs, "CRA – Presort Letters," "CRA – Presort Cards," and "CRA – Metered Letters," cell "J65" is empty. Please confirm the cell "J65" should have the tag "Non-WS_Fixed." If not confirmed, please explain.

RESPONSE:

Confirmed. An updated version of the Proposal Two FCM Letters Cost Model workbook is attached to this response. In addition to the populating cell J65 on the relevant tabs, the updated version still contains the updated subtotals discussed in the April 16, 2021 response to ChIR No. 1, Question 11. The tabs and cells that changed (relative to the initial Petition filing) are highlighted in red. Because the change resulted in less than one tenth of a cent difference in the cost avoidances when compared to the originally filed version, there are no impacts to the passthroughs originally presented in the Proposal Two Worksharing Tables workbook.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2

5. The Postal Service states "[c]osts incurred in NONMODS BULKACCP and NONMODS ALLIED cost pools are experienced by all pieces regardless of presort, either when the pieces enter the mail processing mail stream (NONMODS BULKACCP) or when they exit the mail processing stream (NONMODS ALLIED)." Petition, Proposal Two at 7. Please provide a detailed explanation of why the treatment for NONMODS ALLIED moved from "Piggybacked" in LR USPS-FY20-10, Excel file "USPS-FY20-10 FCM Letters.xlsx" to "Unrelated" in Excel file "Proposal Two FCM Letters Cost Model.xlsx."

RESPONSE:

As mentioned in response to Question 3 part c above, the actions performed on First-Class Presort Letters in the NONMODS ALLIED pool consist of unloading DPS trays and staging them for carriers, or unloading trays of mail that could not be DPS'd and taking them to manual Incoming Secondary (IS) operations. In both instances, DPS or manual, mailings of all presort levels—MAADC, AADC and 5-Digit—are all comingled together in the trays arriving from the plant and receive identical allied handlings at the delivery unit. Because mail of all presort levels receives the same handling at the delivery unit, the same costs in the NONMODS ALLIED pool are moved to "Unrelated" in Proposal Two.